

# REPORT ON MATERIAL SHORTAGES

BY THE

## SELECT COMMITTEE ON SMALL BUSINESS UNITED STATES SENATE



FEBRUARY 5 (legislative day, JANUARY 29), 1951.—Ordered to be printed

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## MATERIAL SHORTAGES

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Mr. SPARKMAN, from the Select Committee on Small Business, submitted the following

## REPORT

Thousands of small manufacturing establishments are today facing extinction.

The reason is clear. Materials are the oxygen of production. But the flow of many essential materials to small plants has been all but choked off.

The Senate Select Committee on Small Business considered this situation serious enough to warrant holding hearings. This was done from January 18 through January 26. To the hearings there were invited the Nation's top industrial mobilization planners, those in charge of the day-to-day operation involved in increasing our production of arms, the primary producers of materials, the fabricators of materials, and, finally, the small-business users of these scarce materials.

The chief purpose of these hearings was to call official and public attention to the deep damage which the lack of essential materials has inflicted upon a sizable percentage of our small producing units. Confirmation of this purpose was never in question. The weight of evidence by witnesses demonstrated beyond rebuttal that small business was once again being left at the post in a war production race upon the outcome of which rests nothing less than our national existence. Thus, for the second time in 10 years, small enterprise has become a home front casualty at the very time when the instinct for survival demands the full and shrewd employment of our entire productive system.

While it is true that the unwholesome, if not desperate position in which small operators find themselves today has resulted in part from faulty mobilization planning, it must be conceded that recent economic conditions tended to stack the cards against an early integration of small plants in the mobilization program. The high rate of industrial activity during the past 3 years chewed up vast amounts

of metal and created spot shortages even before Korea. Some small-business men have informed the committee that they have had to patronize the steel gray market ever since the close of World War II. A major cause of the shortage of materials for small plants has been that the already high rate of production of the industrial giants kept increasing even after the outbreak of war in Korea. No more than a few random figures are needed to confirm this condition. In 1950, more homes were constructed (1,400,000); more automobiles manufactured (8,000,000); more radios and television sets produced (22,400,000); and more refrigerators and vacuum cleaners sold (20,000,000) than in any previous year of our history.

The Administrator of the National Production Authority, Mr. W. H. Harrison, emphasized this circumstance in his testimony before the committee as follows:

\* \* \* You know it is an intriguing thing; never has the American economy proceeded at such a rapid pace as it has in the last 6 to 9 months of 1950. I think it is a fair general characterization to make \* \* \* that we were chewing materials and metals up at a faster rate than we were producing them, and regretfully that thing could not have continued because we had depleted our inventories, had depleted our pipelines. It became dreadfully expensive to do business because of that depletion. Yes; we have no inventories and no pipelines.

The material shortage squeeze was further tightened when a slumbering Munitions Board stirred tardily to increase stockpile holdings which should have been augmented at a gradual rate since 1947. The imposition upon this situation of hastily calculated and constantly revised military requirements for matériel added the final touch needed to complete the disadvantages of small-business men in the materials market.

In addition to this major material problem, several other compelling factors influenced the Senate Select Committee on Small Business to hold hearings. In the first instance, there was the general sense of bewilderment among businessmen and Government officials alike over the patchwork quilt pattern which the mobilization program had assumed throughout the summer and fall. On the production front, small- and medium-sized concerns were being rocked by a series of National Production Authority M-orders, and the relatively few who were fortunate enough to get a Government contract found that, often as not, their DO priority rating for materials amounted to little more than a hunting license. At the same time, more than a few large suppliers of basic materials were finding in the defense-priority mechanism a blanket alibi to shuffle the orders of their smaller accounts to the bottom of the pile.

To acknowledge the inevitability of a certain amount of confusion and dislocation in any war mobilization program should not lessen efforts to hold disarrangements to a minimum. Almost to a man, the hundreds of businessmen who have visited or written to the Small Business Committee in recent months have complained about their inability to grasp the broader aspects of the production program.

It is evident to your committee that NPA has been unsuccessful in its effort to get its program across to the business community. Over and over, witnesses told the committee: "NPA sentences our business to death, but won't tell us why." Your committee is convinced that much of the bitterness that exists among manufacturers across the country would be lessened if NPA made a greater effort to inform them



of the reasons for the various restrictions and prohibitions. The mechanical issuance of regulations and press releases has been adequate for basic informational purposes, but that represents the mere minimum of promotional effort. It is in the equally important phase of creating a national attitude of understanding, and thus of program acceptance, that your committee feels NPA has shown a lack of both energy and imagination. This, perhaps, is a normal tendency of a predominantly data-assembling agency when suddenly confronted with a fast-moving, operating program of national scope.

Typical of the Department's insensitiveness to this important phase of its mobilization responsibilities has been its unwillingness to take advantage of the 44 business mobilization conferences held by your committee throughout the country. These meetings, attended by more than 40,000 businessmen, present an exceptional opportunity to "explain" Washington to Main Street. While the Department of Defense, the General Services Administration, and the Reconstruction Finance Corporation underscored the importance of these meetings by sending high-ranking and exceedingly able officials from Washington to these clinics, repeated requests to Secretary of Commerce Sawyer to assign equally knowledgeable personnel from his Department were met with repeated refusals. Instead, completely uninformed regional and district office employees of the Department of Commerce failed to explain to the gathered businessmen even the most elementary aspects of NPA's program. This attitude of NPA is responsible for much of the confusion and misunderstanding which exists in the American business community today.

NPA's excuse for the prevalent nonenforcement of NPA industry regulations already issued has been that "we are a new staff, just under way since October." The committee feels that, although new and understaffed, NPA has taken little advantage of World War II experience. NPA personnel at the committee hearings admitted a lack of knowledge and experience of the broad over-all problems of World War II mobilization techniques. World War II is fully documented, with complete histories of the War Production Board, and other wartime agencies, providing ready reference and know-how for escaping mobilization pitfalls. Few references seem to have been made by NPA to this material. This lack of familiarity with the recent experiences of World War II has already led to some of the same errors made in the early days of the last war. The Copper Division of NPA, for instance, is aware that the confusion among the users of copper is due to a hastily and poorly drafted Copper Order M-12 and amendments, limiting the use of 300 brass mill products—covering many items containing copper—after April 30 even if they have been fabricated and are in the possession of the end users of the product, primarily builders. The copper order will virtually stop all building in the United States on May 1, according to the testimony of William J. Levitt, a well-known builder. During World War II, when a similar order banning the use of such a product, even though in possession of a builder, was put into effect, a big builder in Virginia sold his surplus inventories to Mexico. It was the thought that we had learned a lesson from such blunders as these.

Both in general fields and in specific commodities, your committee feels that an early and realistic reappraisal of military and stockpile requirements must be undertaken at once. It seems evident that

many of the plans now in operation were formulated back in the "10 percent mobilization" months before the Chinese Communists crossed the Yalu River. For that reason, perhaps even more stringent regulations will have to be issued. On the other hand, some of the requirements appear to be already unnecessarily restrictive and onerous and, perhaps, can be lightened for several months until the stream of contracts reaches floodtide. Government officials testifying before your committee told of the necessary time lag resulting from a proper phasing of defense awards. If such is the case, and there seems no reason for doubt, it appears that there should be a comparable lag in the imposition of harsh controls.

An example which came to the attention of your committee was in the field of rubber, where the synthetic GR-S and plastics-molding compounds are locked in a struggle for benzene supplies. All of the testimony given at the hearings indicated that a slight cut in the synthetic rubber program for a short period of several months will suffice to keep an important industry in operation. While the Small Business Committee has not had an opportunity to examine all aspects of this problem, it now appears that the recommendation of the injection molders' committee on national security with reference to the adjustment of the synthetic rubber timetable is a sound one and an example of the sort of action which can be taken at this time to protect small business in many lines of endeavor.

Another example might be the aluminum fabrication industry. By the so-called death sentence order of NPA, some 14,000 aluminum fabricators are going to be forced to go out of their present business. Figures were presented to the committee indicating that there would be sufficient aluminum left over after the stockpiling and military programs to permit limited civilian production. Certainly it would be folly to shut up these plants now and then discover at the end of the summer that there is an excess of aluminum. Once closed, these plants will be brought back to life with great difficulty, and every safeguard should be taken to make certain that it is necessary to sacrifice them.

In his testimony before your committee, Charles E. Wilson admitted quite frankly that much of the action which has been taken to date has been based on "guesses" and that definite requirement figures were not available until the middle of January 1951. Therefore, we can only conclude that all of the steps taken to date must be reexamined in the light of new conditions and new requirements. In addition, it is urged that, throughout this reappraisal, the needs of small business be realistically considered and weighed.

Your committee was particularly impressed by the testimony indicating a lack of coordination between the Department of Defense and the National Production Authority. Certainly, there should be much closer integration between military requirements and the time of cut-back orders of NPA. Every effort should be made to shorten this gap that can prove so fatal to small business.

Perhaps the greatest single disillusion shared by small manufacturers is the absence of a sufficient volume of war contracts to take up the slack created by material shortages and curtailed civilian production. Charles E. Wilson, Director of the Office of Defense Mobilization, stated before the committee to this effect as follows:

In any accelerated defense program there is, unfortunately, a time lag in some instances between the curtailment of civilian production and conversion to defense

production. In an already tight economy, stockpiling and production for defense must have first call on materials needed to combat the threat of foreign aggression. To assure our military requirements, it is necessary to curtail the use of scarce materials and provide a system of priorities and allocations. An unfortunate result of this in the early stages is hardship to some individuals. On an over-all basis, hardship cases decrease with the increase of defense contracts at work in the economy. We are particularly aware of this problem and are moving as promptly as possible so that dislocations may be held to a minimum.

These "displaced" small enterprises have approached this committee in droves, their brief cases bulging with lists of plant equipment, statements of financial condition, and descriptions of products capable of manufacture. To a man they want work.

Instance: Brass musical instrument manufacturers know that the military will buy in the neighborhood of \$10,000,000 worth of band instruments this year, yet they can't obtain brass.

Instance: Some 70 percent of the jewelry manufacturers converted either as prime or subcontractors to war work in World War II. The industry, a compact, skilled one, is ready and willing to participate in the war production program. Defense orders in a helpful volume have not been forthcoming.

Instance: An iron works, with complete machine shop and forge shop facilities, which in World War II produced Navy pontoons, landing mats, truck parts, winches, davits, and various weldments, has not been able to get a war contract after months of intensive effort.

To date, NPA and the military procurement officers have not succeeded in developing a policy and mechanism which will help to bridge the gulf between civilian production cut-back and a fully accelerated rate of defense buying. Until this does take place, valuable small facilities will continue to fall into disuse, many even to disappear from the scene altogether. The result of this lack of procurement planning may very well be a serious shortage of subcontracting facilities when they are most needed. Your committee can see little excuse for the slowness of the procuring agencies in recognizing and acting on a positive program of planning procurements, the crying need for which is so clearly to be seen in the plight of jewelry manufacturers and other groups similarly situated.

It is also a matter of grave concern to your committee that the present DO system seems to be inadequate to assure delivery of materials to bidders promptly enough to guarantee meeting the military's timetable. Although all the committee's witnesses agreed that, while it was patriotic to reduce inventories, many of them pointed out that they could not successfully bid on defense orders, since the period between award and delivery dates was not sufficient for them to obtain steel or other necessary base materials, to say nothing of the time required for fabrication. And, whereas Government contracts call for delivery in from 45 to 90 days, steel mills require 120 days lead time on DO orders.

From all of the foregoing, it appears absolutely clear to your committee that the present system of controls is not sufficient unto the demands of the situation. While the NPA has been naturally and properly hesitant about risking a recurrence of the flaws of the earlier World War II priority system, their caution may have permitted abuses and dislocations equally injurious to our economic system, although resulting in less deafening public outcry.



The Small Business Committee feels well justified by the facts in calling for a completely controlled material allocation plan at the earliest possible moment. We are convinced that a large segment of American small business is in imminent danger of bankruptcy through the shortages of basic materials and that no other course is open for us. In his opening statement to your committee, Mr. Wilson said, "I hate controls. All my life I have hated them. However, I believe we must have them." The Small Business Committee expresses its wholehearted agreement with both of those premises.

Administrative officials responsible for the defense effort have indicated their plans call for an imposition of a controlled-materials plan as soon as a staff may be assembled and data gathered. Nonetheless, it seems apparent from the testimony developed at the hearings that the progress made along these lines is disappointing and faltering. It is also obvious that more and more individual directives must be issued to provide for essential civilian supplies, each of which further compromises the present "DO or nothing" system. As an example, rubber-heel manufacturers throughout the Nation have been assured of a sufficient amount of rubber to supply the shoe industry, but continued production of new shoes and repair of old ones is threatened, because each rubber heel requires some 8 to 13 steel washers and the relatively minute quantity of steel required for those washers has not been available to the two firms manufacturing them. Both of those firms testified that, quite literally, "for want of a nail a shoe may be lost."

One extremely important qualification, however, must be added to our endorsement of a controlled-materials plan. While it has been praised as a panacea for all the ills of the small fabricator, it is quite obvious that the rope which is a life line for some, will become a noose for others. Unless all segments of an industry, large and small, can participate equally in the formulation of controls, the end result may well be fatal for the small user of a commodity, leaving the larger producer or fabricator relatively unscathed.

Several of our witnesses testified that they survived through the past several years only by paying premium prices for steel or for other basic materials in short supply. With the imposition of over-all controls, such resort to the "gray market" will certainly be punished by strict penalties, but the necessity for such action will remain so long as the small or new processors cannot receive adequate supplies through the normal channels of trade and so long as defense contracts and subcontracts have not filtered down to the smaller units of production.

For these reasons, the Small Business Committee recommends that the Defense Production Authority immediately accelerate its planning for total controls in the materials field. At the same time, we feel that the Congress should be assured that small business is being given more than lip service and more than token representation in this planning endeavor.

In addition to exploring the position of small business with reference to the maldistribution of available materials, the committee feels the hearings served the purpose of directing much-needed attention on the general place of small plants in the defense picture. It is clear that there are large areas in this picture which require remedial consideration. In the sphere of attitude, as well as in the sphere of



action, small concerns are still operating at a measurable disadvantage. There is for the most part, to be sure, no dearth of lip service to the small business cause. And only occasionally are there encountered oblique expressions indicative of a cynical disesteem for the entire concept of small business' place in the war effort. This impatient "we are trying to win the war" attitude—a facile evasion of considerable currency in 1940-42—is once again emerging from the ideological limbo to which it had been relegated following the creation of the Smaller War Plants Corporation during the last war. It is to be met with, usually under polite disguise, in the offices of procurement agencies and at mobilization council tables. Indeed, the failure of small business spokesmen to secure proportionate representation on industry advisory committees, which assist in the drafting of policies and regulations of life-and-death import to small firms, is a continuing source of concern to the advocates of small business' place in the mobilization sun. Their problem in this regard is pointedly suggested by the following comment of the head of a planning board intimately involved in the mobilization effort:

I believe that the business members of our Committee from the Council of Economic Development, Chamber of Commerce, and the National Association of Manufacturers provide representation for small business appropriate to the problems of the committee and consistent with that given to labor and agriculture.

Your committee feels that it is not enough for the highest production-management officials to issue pro-small-business instructions to their staffs. Such directives or memoranda must not be filed away or allowed to atrophy from disuse, but must become the credo of those employees down the line who have daily contact with businessmen and make binding decisions concerning small business. For example, there can be no mistaking the laudable intent of Secretary of Defense George C. Marshall's memorandum of December 18, 1950, directing the Secretaries of the Army, Air Force, and Navy to make maximum utilization of the production facilities of small business. Obviously however, such statements remain in the realm of "window dressing" unless they are fully implemented at all organizational levels.

These businessmen, who are multipliable by thousands, have trudged the corridors of the Pentagon, waited as long as 2 days for a 9-minute appointment in the commodity divisions of NPA, placed their names on invitation-to-bid lists, begging for opportunities to be considered on negotiated contracts, prowled hotel lobbies hoping to meet a responsible 5-percenter with a contract in his pocket, and have finally appealed to their Senators and Congressmen for some ray of hope to relieve their frustration.

For many of them, the committee realizes, the rays of hope will become dimmer. No one expects 1951 to provide any betterment of the materials situation. Both military and stockpiling requirements, the committee learned in executive session, will increase sharply each quarter of this year. It can only then be expected that over the dwindling material pile left for civilian needs the law of the fang and the claw will prevail. The position of the small user of steel may be inferred from the statement of the president of a Midwest electrical appliance company which last year had net sales of about \$30,650,000. "Much of the steel," he remarked, "has been bought through warehouses and special channels at prices 200 and 300 percent above mill price schedule. It was a case of either paying these rates or going

without." Unfortunately, such "gray market" material costs are completely beyond the means of most small companies and they will have to go without, which will mean, in the last analysis, going out of business.

#### RECOMENDATIONS

1. The establishment by NPA, at as early a date as possible, of some general form of controlled materials program, including the allocation of steel to specific end uses, along with other critical materials to insure that the quantities of such materials not required for defense and stockpiling purposes will be reserved for the most essential civilian purposes.
2. The assurance that pending the establishment of a controlled materials plan no firm shall be precluded from engaging in defense work for the reason that necessary materials on DO order will not be forthcoming promptly enough to allow him to meet his delivery date.
3. The determination by all agencies involved in the mobilization program to make fuller use of public informational techniques so that at least that portion of popular confusion traceable to inadequate information may be eliminated.
4. The augmentation of the NPA staff to a point where the work can be more expeditiously handled; coupled with the indoctrination of new staff members recruited from large companies to the effect that they have definite responsibilities toward small enterprises.
5. The early reappraisal of defense and stockpile requirements in order to meet the most realistic foreseeable needs.
6. The attempt, insofar as possible, to coordinate the timetable of military requirements with the schedule of NPA restriction orders.
7. The immediate and active implementation by Army, Navy, and Air Force procurement policy officials of an aggressive program of planned procurements designed to channel contracts to those industries or subgroups within industries which have been hardest hit by cut-backs.
8. The splitting up of large procurement requirements into smaller units so that a greater number of awards may be spread as widely as possible among small plants.
9. The requirement by all large prime contractors that they submit periodic reports on the extent to which they have used small companies as subcontractors.
10. The development of an active pooling program in order to increase the opportunities of small companies to participate on a group basis in contracts which would be too large for single small firms to handle.
11. The imperative recognition at every level of Government that preservation of small business bears vitally on the continuance of our economic democracy.
12. The exploration of methods to guarantee short-term "tide over" loans to worthy small companies which are on the verge of closing because of material shortages but whose facilities will undoubtedly be needed in a full mobilization program.
13. The addition to the membership of all governmental industry advisory committees of small-business representatives.